

FAST TRANS ACT LIMITED
A MARKETING ASSESSMENT

INPUT

About INPUT

INPUT provides planning information, analysis, and recommendations for the information technology industries. Through market research, technology forecasting, and competitive analysis, INPUT supports client management in making informed decisions.

Subscription services, proprietary research/consulting, merger/acquisition assistance, and multiclient studies are provided to users and vendors of information systems and services. INPUT specializes in the software and services industry which includes software products, systems operations, processing services, network services, systems integration, professional services, turnkey systems, and customer services. Particular areas of expertise include CASE analysis, information systems planning, and outsourcing.

Many of INPUT's professional staff members have more than 20 years' experience in their areas of specialization. Most have held senior management positions in operations, marketing, or planning. This expertise enables INPUT to supply practical solutions to complex business problems.

Formed as a privately held corporation in 1974, INPUT has become a leading international research and consulting firm. Clients include more than 100 of the world's largest and most technically advanced companies.

INPUT OFFICES

North America

San Francisco

1280 Villa Street
Mountain View, CA 94041-1194
Tel. (415) 961-3300 Fax (415) 961-3966

New York

Atrium at Glenpointe
400 Frank W. Burr Blvd.
Teaneck, NJ 07666
Tel. (201) 801-0050 Fax (201) 801-0441

Washington, D.C.

INPUT, INC.
1953 Gallows Road, Suite 560
Vienna, VA 22182
Tel. (703) 847-6870 Fax (703) 847-6872

International

London

INPUT LTD.
Piccadilly House
33/37 Regent Street
London SW1Y 4NF, England
Tel. (071) 493-9335 Fax (071) 629-0179

Paris

INPUT SARL
24, avenue du Recteur Poincaré
75016 Paris, France
Tel. (33-1) 46 47 65 65 Fax (33-1) 46 47 69 50

Frankfurt

INPUT LTD.
Sudetenstrasse 9
D-6306 Langgöns-Niederkleen, Germany
Tel. (0) 6447-7229 Fax (0) 6447-7327

Tokyo

INPUT KK
Saida Building, 4-6
Kanda Sakuma-cho, Chiyoda-ku
Tokyo 101, Japan
Tel. (03) 3864-0531 Fax (03) 3864-4114

F E B R U A R Y 1 9 9 2

AST TRANS-ACT LIMITED
- A MARKETING ASSESSMENT

INPUT LIBRARY

INPUT

Piccadilly House, 33/37 Regent Street, London SW1Y 4NF, U.K.
24, avenue du Recteur Poincaré, 75016 Paris, France
Sudetenstrasse 9, D-6306 Langgöns-Niederkleen, Germany

+44 71 493 9335
+33 1 46 47 65 65
+49 6447 7229

Published by
INPUT
Piccadilly House
33/37 Regent Street
London SW1Y 4NF
United Kingdom

AST Trans-Act Limited
- A Marketing Assessment

Copyright (c)1992 by INPUT. All rights reserved.

Printed in the United Kingdom.

No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of the publisher.

The information provided in this report shall be used only by the employees of and within the current corporate structure of INPUT's clients, and will not be disclosed to any other organisation or person including parent, subsidiary, or affiliated organisations without prior written consent of INPUT.

INPUT exercises its best efforts in preparation of the information provided in this report and believes the information contained herein to be accurate. However, INPUT shall have no liability for any loss or expense that may result from incompleteness or inaccuracy of the information provided.

Abstract

This report contains the results of a research study conducted specifically for SYSTEMHOUSE Europe Ltd. by INPUT Ltd, from late December 1991 through to the end of January 1992. The report contains a marketing assessment of AST Trans-Act Ltd which addresses the following areas:

- AST product and service market position.
- A strategic assessment of AST's business including an assessment of the quality of AST staff.

TITLE _____

BRO
DW

CAT No. 23-108 PRINTED IN U.S.A.

Table of Contents

I	Introduction	I-1
	A. Objective and Scope	I-1
	B. Approach	I-2
	C. Report Contents	I-4
II	Executive Overview	II-1
	A. AST - A Company Ripe for Refocussing Through Acquisition	II-1
	B. Outsourcing - AST's Dominant Business	II-2
	C. AST's Key Position in Financial Services Sector	II-2
	D. The Human Resource Factor	II-3
III	Market Position	III-1
	A. AST's Outsourcing Activities	III-1
	1. Overview of AST's Outsourcing Services	III-1
	2. Market Analysis and Forecast	III-3
	3. Competitive Environment	III-5
	4. AST Strengths and Weaknesses	III-8
	B. AST's Product Based Activities	III-10
	1. The UM-20 Product	III-10
	2. The SSI Products	III-13
	3. The Office System Product	III-14

IV

Strategic Assessment**IV-1**

A. Company Structure	IV-1
B. Future Plans	IV-5
C. AST's Human Resources	IV-8
1. Company Culture and Direction	IV-8
2. Managerial Skills	IV-9
3. Technical Skills	IV-10
4. Sales & Marketing Skills	IV-10

Appendices**A. Interview Notes**

A. Trevor Read - Managing Director	A-1
B. Stuart Payne - Director Computing Services	A-2
C. Paul Calver - Manager Computer Services	A-5
D. Laurie Dale - Manager, Communications	A-6
E. Alan Winkworth - Manager Strategic Planning	A-8
F. Mike Dodd - Manager Security	A-9
G. Mike Taylor - Finance Director	A-11
H. Geoff Griffiths - Commercial Director	A-13
I. Tony Spencer - Director Technology	A-15
J. Rob McLaughlin - Director Financial Systems	A-16
K. Alan Fraser - Director New Product Development	A-18
L. Alan Low - Manager UM-20 Department	A-20
M. Ray Norman - Manager Banking Systems	A-22
N. Richard Wheeler	A-24
O. Ian Carter - Manager Office Systems	A-26
P. Westpac Banking Corporation	A-29
Q. Bank of Montreal. Keith Rydberg, General Manager	A-33

List of Exhibits

II

- 1 AST Executives and Senior Managers Interviewed II-3

III

- 1 Systems Operations Market Forecast,
1991-1996 United Kingdom III-3
- 2 Finance Sector - UK Systems Operations Market
- 1991-1996 III-4
- 3 AST's Market Growth Potential III-5
- 4 UK Systems Operations Vendors
- Financial Services Sector 1991 III-6
- 5 Leading Systems Operations Vendors
United Kingdom, 1990 III-7
- 6 Overview of Worldwide Plastic-Card
Verification System Market III-11
- 7 UM-20 Customer Base III-12

IV

- 1 AST Service/Product Portfolio
- Organisational Overview IV-2
- 2 INPUT'S Overview
- AST Service/Product Portfolio IV-3
- 3 AST Revenue Generation Plan IV-6
- 4 Outsourcing Oriented Analysis
- AST Revenue Plan IV-7



Digitized by the Internet Archive
in 2015

<https://archive.org/details/asttransactlimitunse>

I Introduction

A

Objective and Scope

The overall objective of the research study was to obtain an *independent* marketing assessment of AST Trans-Act Limited (AST) for SYSTEMHOUSE Europe Ltd. Specifically the study was targeted at the following areas:

- AST product and service market position.
- Strategic assessment of AST's business.
- An assessment of the quality of AST staff.

The scope of the study was determined by the constraints of interviewing only the executives and senior managers of AST and two of AST's system operations (FM) users.

Throughout this report INPUT uses the term systems operations to describe the type of services provided by AST's Computing Services Division. The popular term for this category of service FM (Facilities Management) is used in the interview notes included in the Appendix to this report.

B

Approach

INPUT conducted a series of interviews with executives and senior managers of AST during the period 30th December 1991 through to the 20th January 1992. In total fifteen interviews were conducted. The interviewees are listed in Exhibit I-1 which is set out to correspond to AST's current known organisation chart.

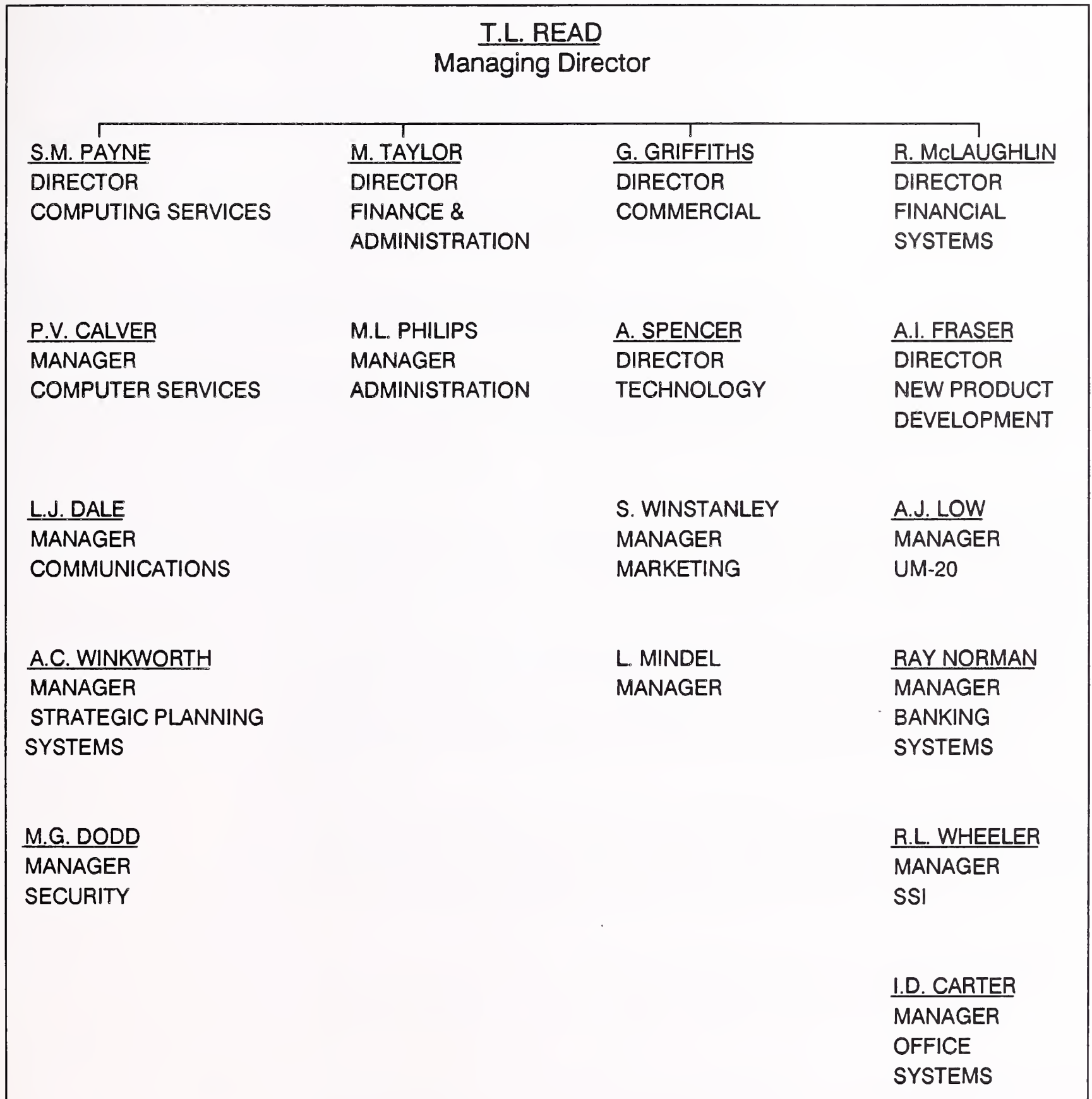
Additionally INPUT interviewed two AST systems operations users, Westpac Banking Corporation and the Bank of Montreal, the personnel interviewed were as follows:

- Westpac
 - Peter R. Allen, Chief Manager, Management Services European Division.
 - Mark Paige, Manager Information and Operations Centre
- Bank of Montreal
 - Keith Rydberg, Senior Manager, Operations.

The interviews with each person were conducted in a free-flowing style without rigid adherence to a questionnaire. This was done in order to conduct the work in a non-threatening manner and in order to optimise the chance of obtaining insights into the internal realities of AST rather than the external image that they might wish to portray. A check list was used in order to ensure coverage of key areas of focus for the study. These were classed as:

- Product and service market position
 - AST's market share and competitive ranking.
 - The size and growth prospects for AST's principal served markets.
- Strategic assessment of the business
 - Strategic directions.
 - Future plans for AST.
 - The customer's view of AST.
 - Sales and marketing Function.

EXHIBIT I-1

AST Executives and Senior Managers Interviewed

Underlined indicates person interviewed

C

Report Contents

The remaining chapters of this report are set out in the following format:

- Chapter II is an executive overview that summarises the key observations and conclusions that resulted from the research study.
- Chapter III analyses the markets addressed by AST and the positioning of its service products within them.
- Chapter IV describes the strategic assessment of AST's business made from the research study.
- As Appendix contains notes on each individual interview conducted for the study.

II Executive Overview

A AST - A Company Ripe for Refocussing Through Acquisition

AST Trans-Act Ltd in its current configuration represents an attempt to marry a systems operations activity with an increasingly product focussed division with the aim of achieving technical, marketing and financial synergies.

In practice the hope of generating high gross margins from license fees emphasises AST's marketing weaknesses and diverts management attention away from the core systems operations business.

The question for SYSTEMHOUSE is the extent to which AST would be a good acquisition. INPUT's conclusion is that it is basically a company with a sound core business that can be refocussed to meet SYSTEMHOUSE's acquisition goals. This is demonstrated by examining:

- AST's organisation structure that reveals the dominant nature of the outsourcing activities that are of key relevance to SYSTEMHOUSE, and with the exception of the UM-20, the marginal nature of its product based business.
- AST's market position which is strong in the key financial services systems operations sector where it offers potential for further development and profit growth.
- AST's resources, managerial and technical necessary to support the implementation of SYSTEMHOUSE's immediate acquisition goals.

B

Outsourcing - AST's Dominant Business

AST's organisation structure places great emphasis on the product based activities of the company. This reflects a widely shared view amongst the senior management that the future lies in the higher profit potential that can be obtained by selling license fees for products rather than having to provide continuous services.

In INPUT's analysis two areas of activity within the product division (Financial Systems Division) are more appropriately defined as outsourcing activities, namely:

- Banking Systems, which is in effect an applications management activity for RBC.
- Office Systems, which is in essence a second-level desk-top support service for RBC.

Classifying these two activities together with the systems operations activity of the Computing Services Division as a range of outsourcing services reveals AST deriving about 85% of its FY91 revenues from this source. This is in stark contrast to the way AST has tried to portray itself as a company moving in FY92 towards revenue parity between its systems operations and product based divisions.

This analysis clearly reveals that AST's strength is in outsourcing services, not in product related activities.

C

AST's Key Position in Financial Services Sector

An analysis of AST within the systems operations market of the financial services sector reveals it as having achieved a significant competitive position. Second only to EDS who probably generate about twice as much business in this sector as AST, it has clearly differentiated itself from other leading general purpose systems operation vendors within the UK. Hoskyns, DataSciences (Datasolve) and the SEMA Group are all estimated to generate less business within the financial services sector than AST.

AST is estimated to have achieved a market share of about 17% in the traded systems operations financial services sector during CY91.

AST's core outsourcing business is thus an attractive acquisition target for SYSTEMHOUSE as the basis for building data-centre related services.

AST's UM-20 product based services are also well positioned as plastic-card systems proliferate through continental Europe. Although only having a marginal position in the UK at the present time, their lower cost entry point is attractive to the smaller organisations now setting up their own systems in that market as well as to the numerous banks beginning to develop these services throughout Western and subsequently Eastern Europe.

AST's remaining product based activities, the SSI products and LANMail have no established market position and are irrelevant to the further development of outsourcing business.

D

The Human Resource Factor

AST has significant technical and management resources that are being challenged by the schism in the company created by the latent conflict between services and packaged products.

Any conflicts at a senior management level derive from this direction dilemma that is in danger of taking focus away from developing their key outsourcing activity.

The company represents a significant human resource pool that redirected effectively, would prove an asset to any potential acquirer.

III Market Position

This chapter discusses the market position of AST's services and products. For analysis purposes all *outsourcing* activities are grouped together distinct from AST's *product* related activities. Consequently the following structure is used:

- Outsourcing
 - Computer Services Division
 - Banking Systems
 - Office Systems.
- Product
 - UM-20
 - SSI
 - Electronic Mail.

A

AST's Outsourcing Activities

1. Overview of AST's Outsourcing Services

The support of AST's systems operations (FM) clients is provided by the Computing Services Division which includes the communications support as well as the platform operations.

The services are provided primarily from the company's data centre but there are some on-site activities as well. The AST data centre at Stamford Street has three IBM mainframes operating under MVS and VM. The total processing power is 45 MIPS with DASD capacity of 100 Gigabytes. Other installed equipment includes IBM AS/400, Tandem, Digital VAX, Stratus, McDonnell Douglas and Wang systems.

In addition to the provision of platform operations AST also supports client network communications. Network services are considered by AST to be an integral part of the total systems operations package and this is reflected in AST's organisation structure with Laurie Dale, the manager of the Communications Department reporting directly to Stuart Payne Director of the Computing Services Division.

The communications service includes the provision of data, telex and voice transmission facilities, terminal equipment maintenance, PC/LAN technical support, financial dealer room support and communications consultancy.

The AST network includes private line, radio, dial-up, and packet switching facilities as well as a satellite link to RBC in Toronto. The high speed communications links connect the Stamford Street data centre to other North American locations as well as European sites.

A network control centre is located at Stamford Street which includes network back-up, diagnostic and switching facilities. The Stamford Street centre has approximately 100 logical links connected.

A help desk is incorporated within the network control centre which is also utilised to co-ordinate the provision of terminal equipment maintenance through third-party service organisations.

AST also provides an applications management and support service which is classified by INPUT as an outsourcing service. This activity, the Banking Systems Department managed by Ray Norman reports to Rob McLaughlin in the Financial Systems Division. It is defined by AST as providing systems integration, development services and Internet product add-ons targeted at the Treasury and Corporate Banking departments of international banks.

In practice it is specifically supporting the Internet system run for RBC although it does have opportunities to support other clients. Internet is a widely used but very complex Tandem based international banking package.

The remaining area classified within outsourcing is that of Office System Support which is managed by Ian Carter and reports to Rob McLaughlin in the Financial Systems Division. Although this Department has some product responsibility it appears to be primarily geared to providing PC and LAN support to RBC and AST itself albeit that RBC have scaled back the level of service they are prepared to pay for from AST. This has resulted in budget cuts for this Department.

The total revenues derived from AST's *outsourcing* activities in FY91 amounted to £10.8M, some 84% of the company total. The analysis is as follows:

- Platform Operations including Communications Support
£8.5M (66%).
- Applications Management
£2M (16%).
- Office Systems Support
£0.3M (2%).

2. Market Analysis and Forecast

INPUT's market analysis and forecast for the whole systems operations market in the United Kingdom is shown as Exhibit III-1.

INPUT's historical analysis of the Systems Operations market distinguished between platform operations and application operations is shown in Exhibit III-1. Platform operations implies simply a data centre outsourcing service whereas applications operations implies the maintenance and management of the applications and includes revenues generated for running the platform that supports them.

EXHIBIT III-1

Systems Operations Market Forecast, 1991-1996 United Kingdom

	Market Forecast (£ Millions)				
Subsector	1990	1991	1992	1991-1996 CAGR (Percent)	1996
Platform Operations	165	200	240	22	530
Application Operations	85	100	120	20	250
Total	250	300	360	21	780

EXHIBIT III-2

Finance Sector - UK Systems Operations Market - 1991-1996

	Market Forecast (£ Millions)			
Subsector	1991	1992	1991-1996 CAGR (Percent)	1996
Banking & Finance	50	60	25	150
Insurance	10	11	15	20
Total	60	71	22	170

It should also be noted that the market analysis shown in these exhibits represents estimates of revenues earned during the year in question and not the total value of contracts awarded during that year.

Since AST has specifically targeted the Finance sector of the UK systems operations market it is reasonable to consider their market position just within this sector. On the basis of the analysis shown in Exhibit III-2 it can be seen that AST commands approximately 17% of the market based on an estimate of total revenue of £10M in CY1991. A comparison with its competitors is provided below in subsection A3.

Exhibit III-2 indicates that growth prospects are reasonable for this sector with greater opportunities in the Banking and Finance sector in comparison to the Insurance sector.

It is important to recognise that these levels of forecast growth are considered by INPUT to be *evolutionary*, they reflect experience to date in the market and vendor expectations for their future levels of investment and development. INPUT considers that there exists a real possibility for a *revolutionary* scenario in *outsourcing* in general and thus for systems operations services. Whilst we reserve doubts about many vendors' willingness to invest at a rate that would sustain overall market growth for outsourcing at a *revolutionary* rate (of the order of 50% per annum over the five year period 1991-1996) this does point to the possibility for any vendor aggressively targeting this market to achieve high levels of organic growth, well in excess of the industry average.

This scenario would imply targeting the Internal IS department as the *key competitor* and achieving organic industry growth through the *acquisition* of in-house staff, systems and facilities.

Exhibit III-3 provides a comparison between AST's projected growth of *outsourcing* services and that of the Finance market subsector. The impact of declining RBC revenue is clearly shown with a major challenge required in generating new outsourcing business.

EXHIBIT III-3

AST's Market Growth Potential

	£ Millions	
Sector	1991	1992
Total Finance Sector	60	71
Projected AST Revenues	10	9

3. Competitive Environment

Exhibit III-4 lists the leading vendors active in the UK Finance sector of the Systems Operations market for the calendar year 1991.

Exhibit III-5 provides a wider perspective on the UK systems operations competitive environment by listing the leading vendors active in the whole sector.

EXHIBIT III-4

UK Systems Operations Vendors - Financial Services Sector 1991

Rank	Company	Market Share (Percent)	Estimated Revenues (£ Millions)
1	EDS	33	20
2	AST	17	10
3	Hoskyns	13	8
4	DataSciences	10	6
5	SEMA Group	8	5
6	Andersen Consulting	7	4
	Others	12	7
	Total	100	60

EXHIBIT III-5

Leading Systems Operations Vendors United Kingdom, 1990

Rank	Company	Market Share (Percent)	Estimated Revenues (£ Millions)
1	CGS/Hoskyns	23.7	70
2	AT&T Istel	13.6	40
3	EDS	5.4	30
4	Data Sciences	7.5	22
5 =	SEMA Group	5.1	15
5 =	ITnet	4.9	15
7	Andersen Consulting	3.4	10
8 =	CFM	1.7	5
8 =	SD-Scicon	1.7	5
10	Digital	1	3
	Others	32	14.5
	Total	100	215

EDS is considered by AST to be their most formidable systems operations competitor. They see EDS's ability to offer a *total* solution to the client, including their capability to offer their own financial systems products, as presenting a very strong challenge in the market.

One AST manager did however express the view that EDS's great strength, its breadth and scale of capability was also a disadvantage in respect of selling into the UK finance market, it hindered them from getting really close to the sector clients. (These remarks do not fit well with EDS's significant market share in this sector).

Datasciences (Datasolve) do not figure strongly in the Banking sector but do have a position in the Insurance sector which has recently been strengthened by gaining a major SO contract with Sedgewicks.

Hoskyns although highly competitive on price were not viewed by AST as having the finance sector knowledge and experience necessary to make them a really strong competitor. Hoskyns reputation in the market is *the company prepared to 'outsource' anything*.

Andersen Consulting have not appeared strongly in the systems operations finance sector. As well as an insurance company contract they also have a contract with Banque Belge. Andersen Consulting suffered some considerable embarrassment when they announced a contract with Standard Chartered prematurely and were then not awarded the business.

Amongst the other companies that were mentioned as competitors or potential competitors were:

- The Sema Group. Not particularly active in the Finance systems operations market.
- IBM. The systems operations initiatives of IBM seem to be related to account control/protection considerations. They move in strongly when a significant account appears to be under threat of being outsourced. IBM recently gained a contract with the Scandinavian Bank, but no transfer of staff were involved, it is understood that the processing work has been transferred to their Warwick Data Centre.
- Centre-file. The subsidiary of the Nat-West Bank.
- BIS-Perthcrest. Who are not serious contenders at the moment but are a company with a major opportunity to outsource the running of their MIDAS banking systems sold by another division of BIS Nynex.
- Barclays Bank. Were considered to represent a long-term threat.

4. AST Strengths and Weaknesses

AST has made a conscious decision to concentrate on the Finance sector of the systems operations market. It is believed by senior management that its Banking heritage, its knowledge of Finance sector client's needs, notably their need for high levels of security at every level of the operation, provide it with a significant marketing edge.

Nearly all the management team subscribed to this view, laying particular emphasis on their *unique* capabilities in respect of the security that AST provided its systems operations clients. A typical comment was; *We manage security, it is a cost benefit trade off, we examine what the client needs.*

However one dissenting voice pointed out that there was probably nothing really unique about AST's level of security expertise or service delivery, competitors could probably do it equally well. He said; - *the security card is overplayed.*

The emphasis on sector knowledge was considered to be much more important than having leading edge technology. Advanced technology only being required for certain specific situations and not being a general selling point for systems operations. One manager commented - *you need to be customer driven on this.*

Nevertheless there also existed a considerable level of concern that AST did not fall too far behind in its level of software technology. The fact that AST's IBM Data Centre was 2 generations behind on software was recognised as a problem that needed speedy resolution.

One technically oriented initiative that had been made was the decision to acquire an Automated Operations system, a PC based *intelligent console* TIC supplied by VOTEK. This is the early days of implementation. Its functions include message monitoring, command issue response including voice messages and pagers.

Most of the AST management felt that AST's brand image was weak in the market. It does not help that AST is also the name of a leading PC clone vendor and is also used by at least one other company as a rubric.

There has also existed considerable weakness in the sales and marketing function for systems operations in AST. This has been addressed through the appointment of Geoff Griffiths and the consolidation of the entire AST sales and marketing team under Geoff in one physical location. Specifically a systems operations salesman (ex Datasolve) has been appointed and a targeted campaign to AST's chosen market sector organised. AST has made a considerable investment in the sales and marketing function (now a group of some 15 people) and it is critical to the achievement of the FY92 annual financial plan that at least two new systems operations contracts are obtained and activated in the current fiscal year to generate at least £1.5M in revenues.

B

AST's Product Based Activities

AST's product based activities comprise in INPUT's analysis, the UM-20 product, the SSI derived products and an electronic mail product supported by the Office Systems Department. Each is discussed separately below.

We have described these activities as product based since none of AST's packaged software is sold 'shrink-wrapped', they are all customised to a significant degree and only *deliverable* through the application of a considerable measure of professional services to develop the required system, install and implement it.

1. The UM-20 Product

The UM-20 product is a highly parameterised modular system for ATM and EFTPOS transaction authorisation, data capture and switching which is based on Stratus platforms (and the IBM System/88, the IBM badged system sourced from Stratus).

The UM-20 has found a niche in what is basically a well developed market (in some countries, particularly the UK) by offering a *me-too* solution at a much lower price than the market leaders, Base 24 and ON2. These early market entrants were marketed at very high prices, UM-20 based solutions are typically only 5 to 10% as expensive.

As the use of plastic cards has proliferated so has the need for authorisation systems amongst smaller organisations, for example building societies and retail organisations. The move to plastic card systems on the Continent has also opened up a number of opportunities to AST.

Exhibit III-6 provides an overview of the principal competitive installed base of competitive plastic card authorisation systems. Although not shown in the Exhibit a very large number of the installations making up the worldwide total are located in the US.

EXHIBIT III-6

Overview of Worldwide Plastic-Card Verification System Market

COMPETITIVE PRODUCTS	Estimated No. of installations					
	WORLD- WIDE	UK	D	CH	F	CANADA
BASE 24	300	20	1	NA	NA	NA
ON2	200	3	-	-	NA	NA
CONNEX	200	3	1	-	NA	NA
UM-20	15	8	2	2	2*	1

NA = Not Available

* Controlled through an agency agreement with SODINFORG, now part of the AXIME group.

Within Europe all of these *products* have been installed in situations demanding considerable levels of customisation, consequently they have been marketed through professional services companies. The line-up of competitors is as follows:

- Base 24 - The Sema Group
- ON2 - Logica
- CONNEX - SD-Scicon (EDS)

AST's customer base for the UM-20 product is listed in Exhibit III-7. BS Visa Card Services and BIK, use UM-20 on behalf of their member banks.

AST has benefited considerably from financial deregulation in Germany. Up to the end of 1991 the GZS organisation held a monopoly over all plastic card systems. GZS used Base 24 but lost credibility in the market because of implementation problems.

In Switzerland only two banks issue Visa Cards and these are both users of UM-20. SITA, the international airline network service provider uses UM-20 in Montreal to process payment transactions from telephones located on board aircraft.

EXHIBIT III-7

UM-20 Customer Base

UK.	Bradford & Bingley Building Society Birmingham Midshires Building Society Citibank Savings Coventry Building Society North of England Building Society Yorkshire Building Society Fenwick Ltd. The Airplus Company Ltd.
D.	B'S Visa Card Services (Frankfurt) BIK (Frankfurt)
CH.	Bank Finalba (Zürich) Corner Bank (Lugano)
Canada	SITA (airline network)

AST believes that it has a significant opportunity in Europe for UM-20 based systems. In the United Kingdom amongst retail organisations (for example it already has Fenwicks as a customer) and any other organisation that might wish to issue its own plastic card payments system. The UM-20 price point is targeted at these smaller organisations.

On the Continent the use of plastic cards is at an unsophisticated level in many countries (France is the obvious exception). In most European countries competitive systems are sold through distributors who have little knowledge of either the specific market sector needs or the intricacies of the products. Consequently they believe that they can penetrate these markets relatively easily. AST recognises that it needs to conduct better market research to identify prospects and improve its market visibility. Clearly the earlier that they can penetrate these markets the higher the margins on the contracts are likely to be. Italy has been identified as an important opportunity.

It should be noted that there exists the possibility of a very significant market opening up in Eastern Europe for plastic card payments systems.

It is clear that AST has achieved market penetration in the UK at the expense of profit. Most of the UK contracts have been signed at total price levels in the range of £100-£150K. All of this revenue was required for professional services, in effect these contracts gave the *product* away free. One manager commented; - *At the time we needed the money.*

It is understood that current contracts are now being quoted at price levels between £400 and £800K with the licence fee element representing about 15% of the total contract value.

A number of concerned managers referred to an *ideal* model of revenue generation for product based services like UM-20;

- One third licence fee
- One third enhancements
- One third maintenance.

Clearly this profile is very far from being achieved with the UM-20 operations running at a considerable loss in FY91.

Higher contract values also appear to be paying off in terms of the level of enhancement business that can be generated.

One further price issue is caused by the high cost of buying STRATUS high availability platforms. This is considered a significant barrier to further penetration of the retail sector. A long-term solution to this would be a shift to a UNIX platform.

UNIX systems and Open Systems in general are of course significant issues for the UM-20 development team. AST recognises the beginning of customer pressure to make the move to open systems. The level of conversion costs will be a function of the conversion tools available. Ninety five percent of the code is COBOL with the remaining 5% in C. The design of the system is modular with a greater degree of parameterisation claimed for the product compared to its competitors.

2. The SSI Products

AST has a licensing agreement with SSI (Stockholder Systems Inc.) of Atlanta, Georgia, to market three products in the UK and Ireland:

- RMS
- CSSII
- LANPath.

RMS is a Recovery Management System for the handling of debt recovery. It is available on both AS/400 and IBM mainframe platforms. AST has one customer for this product, Marks & Spencer Financial Services. The *product* has a contract value in the range £100K - £250K.

CSSII is a large IBM mainframe base product for the maintenance of company shareholder registers. Only one client exists in Europe for this product, the AIB Group (formerly the Allied Irish Bank). Although AST was associated with this sale and its subsequent anglicisation, enhancement and installation the sale was made directly by SSII Inc. The cost of CSSII is in the range of £200-£250K. Marketing of this product is being held up by the failure of the London Stock Exchange's Taurus system to be fully implemented. There is still some speculation as to the level of take-up by company's wishing to control their own share registers, rather than the current outsourcing of this business function, even when Taurus becomes full implemented. It would appear that a considerable up-front marketing investment is required to achieve any significant level of sales. At the moment the status of the Taurus project has caused potential clients to *batter down the hatches*. The responsible manager said; - *It is not a market at the moment, although there is minimal competition(!), you are selling against inertia.*

LANPath is a family of products providing WORM (Write Once Read Many) optical disk based document storage and PC LAN based document distribution services. The responsible manager described this as currently only *half a product*.

This department will have a tough challenge in meeting its sales target of £1M in FY92.

3. The Office System Product

Managed by the Office Systems Department, which as referred to earlier is primarily targeted at providing PC and LAN support to RBC, this *product* has no clearly defined market or business plan.

Called LANMail internally (there are problems with registering its name publicly, and a name is being sought), the product provides electronic mail services to corporate networks composed of IBM and mid range computers linked to LANs running under a variety of operating systems including Novell and IBM PC-LAN. LANMail handles the distribution of mail within the LAN environment and controls mail interchange with the IBM DISOSS and OfficeVision products.

AST and RBC both use this product. Additionally a copy has also been provided to Pfizer Hospital Products which has become a beta-test site. (Pfizer has 14 sites using AS400 and LANS). The Pfizer initiative has been handled in conjunction with a small consultancy Connectivity Plus.

Entry level pricing for this product is less than £1,000.

This activity has no funding, no marketing, and is currently on hold status within the company.

IV Strategic Assessment

A

Company Structure

One of the most significant observations made about AST during this study concerned the conflict between the *service* and *packaged product* directions implied in its organisation structure.

Exhibit IV-1 shows an overview of AST's service/product portfolio according to its organisational structure. Two areas of activity within the Financial Systems Division are primarily outsourcing activities more logically associated with the systems operations (FM) activity of the Computing Services Division. The Banking Systems Department run by Ray Norman is focussed entirely on supporting RBC applications that are run on the AST Data Centre. INPUT considers this *applications management* function to be an important aspect of the outsourcing opportunity.

EXHIBIT IV-1

AST Service/Product Portfolio - Organisational Overview

Computing Services Division			Financial Systems Division		
Platform Operations			UM-20		(16)
<ul style="list-style-type: none"> • IBM Data Centre • Stratus • Tandem • Other • Communications Support 			Banking Systems		(16)
			SSI		(-)
			Office Systems		(2)
FY91	£8.5m	66%	£4.3m		34%

() = approximate percentage of FY91 revenues.

EXHIBIT IV-2

INPUTS Overview - AST Service/Product Portfolio

Outsourcing Activities			Product Based Activities	
Platform Operations			UM-20	(16)
<ul style="list-style-type: none"> • IBM Data Centre • Stratus • Tandem • Other • Communications Support 			SSI	(-)
(66)			Electronic Mail (Office Systems)	(-)
Applications Management (Banking Systems)				
(16)				
Desk-Top Services (Office Systems)				
(2)				
FY91	£10.8m	84%	£2.0m	16%

() = approximate percentage of FY91 revenues.

The Office Systems Department run by Ian Carter has approximately half its resources devoted to supporting RBC PC and LAN networking applications. This type of service is again classified by INPUT as an important outsourcing opportunity, that for Desk Top Services.

AST's management structure does not recognise the common 'outsourcing' nature of these activities, except at the company level. It has preferred to place emphasis on the *product* support aspects instead. Exhibit IV-2 shows this alternative view of AST's product/service portfolio. The way AST is organised leads to some tensions within AST and between the company and its major client RBC.

Stuart Payne runs the Computer Services Division and appears not to want to get involved in the 'hassle' of managing the client's application.

Rob McLaughlin is supposedly leading a packaged product group with a belief amongst the company that financial success can be achieved through emphasising the generation of licence fee income rather than professional services business. And yet Rob McLaughlin is involved in supplying the 'Internet' service to RBC and is thus heavily involved in supporting the *outsourcing* service. INPUT gained the impression that the provenance of many staff from the RBC exacerbated this situation embroiling senior management into internal RBC political issues. AST does not appear to be a very political company but clearly the RBC organisation is.

This seems to lead to some conflict between Rob McLaughlin and Stuart Payne, not a question of scoring points more a question of unclear areas of accountability. The organisation structure exacerbates this.

The alternative view of AST shown in Exhibit IV-2 provides a very different perspective on the nature of AST as a company. Not as in Exhibit IV-1 a company with an even balance between *service related* and *product* related business (AST have predicted that each Division would contribute approximately half the company's revenues in FY1992), but a company that is primarily concerned with *outsourcing* (over 80% of its revenues in FY1991) with one significant *product based* professional services revenue stream. The SSI and electronic mail products appearing to be almost entirely irrelevant in revenue generating terms (but not in cost terms) to the company.

B

Future Plans

AST's future plans are ostensibly based around a two pronged strategy:

- Continue to develop the systems operations business in the financial services sector.
- Increase emphasis on product sales through both existing products and the acquisition of licenses for new products with synergy to the existing business.

The general philosophy of the company is that since all products are *financial services* related (with the exception of LANMail), synergies exist between the two sides of the business allowing for an integrated marketing and sales approach.

An argument used by AST management for justifying their two pronged strategy is that the systems operations revenues smooth out the more unpredictable product sales revenues, and that the smaller size product revenues ameliorate the larger step-function revenue increases (and possible step-function increases in costs) experienced in systems operations.

This is a contentious argument. Cross-subsidisation blurs the control of costs in the separate business areas. This approach will deflect management from taking cost cutting measures in a timely fashion, when they are necessary.

In practice Trevor Read does not believe that the company can continue in its present form. If the current SHL initiative does not go through then some other acquisition or merger partner would be pursued to provide a new direction.

It seems unfortunate that much emphasis on future thinking by the senior management, including Trevor Read, revolves around the potential leverage from product license fees.

However AST does not have a track record in this, indeed as discussed in Section B above, AST is actually a *services* company, this is the sector where its skills, experience and knowledge resides.

INPUT would conclude that AST has little chance of achieving these *product* oriented aims without merging with or acquiring a *product* oriented business.

AST's real opportunity is to continue to develop its outsourcing business based upon the solid experience and technical capabilities of its staff.

AST's Revenue Plan is shown in Exhibit IV-3 in the format that reflects their organisation structure and as depicted in the overview shown as Exhibit IV-1.

INPUT's alternative revenue generation overview, reflecting the structure shown in Exhibit IV-2 is shown as Exhibit IV-4

It should be noted that this revenue generation analysis has been put together from manager's anecdotal comments in interviews. It requires verification against AST's annual financial plan - not provided to INPUT.

EXHIBIT IV-3

AST Revenue Generation Plan

	£ Millions (Rounded)		
BUSINESS FUNCTION	FY 91	FY 92	91/92 GROWTH PROJECTION
RBC Systems Operations	4.3	3.5	-19%
Other Systems Operations	4.2	5.7	+36%
SO Total	8.5	9.2	+8%
UM-202.0	4.2	+110%	
RBC Applications (INTERNET)	2.0	2.0	-
SSI	-	1.3	-
Office Systems	0.3	0.2	-33
Financial Systems Sub-Total	4.3	7.7	+79%
TOTAL	12.8	16.9	+32%

EXHIBIT IV-4

Outsourcing Oriented Analysis - AST Revenue Plan

	£ Millions (Rounded)		
BUSINESS FUNCTION	FY 91	FY 92	91/92 GROWTH PROJECTION
RBC Systems Operations	4.3	3.5	-19%
Other Systems Operations	4.2	5.7	+36%
RBC Applications (INTERNET)	2.0	2.0	-
Office Systems	0.3	0.2	-33%
OUTSOURCING SUB-TOTAL	10.8	11.4	+6%
UM-202.0	4.2	+110%	
SSI	-	1.3	-
PRODUCT BASED SUB-TOTAL	2.0	5.5	+175%
TOTAL	12.8	16.9	+32%

C

AST's Human Resources

Trevor Read is apparently fond of saying that AST's assets *go up and down in the lift everyday*. Undoubtedly AST's human resources are a key evaluation factor for SYSTEMHOUSE, in respect not only of their technical, marketing and management skills but also of the whole company culture and the leadership by the senior executives.

These issues are discussed in this section under the following headings:

- Company culture and direction.
- Managerial skills.
- Technical skills.
- Sales & Marketing skills.

1. Company Culture and Direction

AST appears to be an apolitical organisation where problems and disagreements, when they do occur, result from a lack of clear definition of responsibilities. Overall the company is very sympathetic to people and is not a hire and fire organisation, as one manager commented *in the AST culture it is difficult to say NO*.

The principal cultural ingredients for AST Trans-Act have been the two very different management styles and approaches of its originating constituent parts, RBC Systems and AST. On the one hand the highly proceduralised and formalised RBC *big organisation* approach and on the other the more *free-booting, street-wise* but highly technology oriented AST. Most managers seemed to think that they had benefited from the mixture of these two approaches but it was not clear that the synthesis has been completed between them.

Although much emphasis was placed on the RBC formalising influence, BS 5750 accreditation has not yet been embarked upon. Formal planning processes, although in place, are perhaps not yet functioning fully. Essentially the company operates on a short-term focus.

AST is comprised of small groups to each of which the people appear to have a strong sense of belonging. Staff turnover is low (according to managers) but this would be expected in a recessionary environment particularly acute for relatively highly paid IT *banking* personnel.

A clear view is emerging within the Company that software product license fees rather than the development of professional services should be the way to achieve profitable growth, in a word *replication*. Unfortunately there is no clear evidence that the business marketing skills exist within the company to achieve this. AST is fundamentally a professional services firm. Consequently there is a state of flux in converting from a *technology* led to a *marketing* led approach.

2. Managerial Skills

Trevor Read is generally viewed as someone with strong entrepreneurial skills, a finder of opportunities, as someone who opens doors. Fundamentally Trevor is a salesman who naturally speculates rather than plans. Trevor views himself as someone of great singleness of purpose. He probably finds it difficult to get other people involved until he is clear in his own mind on a course of action when he will then place great reliance on others to implement his plans. Trevor does not have a reputation for solid day-to-day operational management.

At Director level Stuart Payne and Rob McLaughlin stand out as the two executives who make things happen on a day-to-day basis. Stuart Payne seems particularly highly regarded for his data-centre management knowledge and skills although he clearly needs more *people oriented* managers like Paul Calver to ameliorate his more *cerebral* style. Rob McLaughlin is also highly respected, even considered a workaholic by some of his colleagues. He appears to operate efficiently as a *tactical* manager although his *strategic* sense must be questioned in respect of the lead he has taken towards emphasising products as a key direction for AST.

Geoff Griffiths is a *typical* sales manager *type* who has yet to prove his capability to produce sales for AST. He seems to have had Trevor Read's backing in creating a larger integrated sales and marketing function which has shifted some influence away from the two operational divisions, now he has to show the results.

Mike Taylor, the Director of Finance and Administration is not regarded by Trevor Read as a *heavyweight* financial executive as would be appropriate for a quoted PLC. The impression was gained that he wielded little influence in the company in terms of its approach or direction, although he is a competent accountant with a Big Six heritage.

The two other Directors, Tony Spencer and Alan Fraser have no staff and owe their status to being founders of the original AST Company. Both are technically talented individuals who probably lack general management skills.

At the senior manager level (managers reporting to Directors) the impression was gained that AST had significant competence to carry out its operational tasks effectively. The track record of the company and the customer feed-back were evidence of this.

The area of concern overall in respect of managerial skills, would be the lack of long term planning and strategic direction given to the enterprise by the senior executives.

3. Technical Skills

AST clearly employs many highly qualified, enthusiastic and hardworking technical people. One of the downsides is that they do not have in place, particularly on the *product* based side, the quality control systems, eg. BS 5750, necessary to support their intended product based growth.

Another downside concerns customer care attitudes, probably a more critical issue for the Computing Services Division, where *ex-client* staff still view their *customers* simply as *users* in some situations.

In respect of specific technical skills their INTERNET resource appears to be very valuable, on the downside they are not strong on *open systems* skills.

4. Sales & Marketing Skills

The *jury is still out* on this group since their key challenge is actually meeting ambitious sales targets in FY 92. It seems that this group has begun to pull some power away from the two key *delivery* divisions.

Historically sales and marketing has been a troubled area for AST with a high turnover of staff. At least Geoff Griffiths has imposed a professional sales discipline on the department and recruited experienced sales staff who appear to have a track-record in relevant service sectors.

The glaring discrepancy in this function is between the *services* oriented sales skills assembled and the apparent goal of the company to market and sell software *products*. This issue is discussed at length elsewhere in this report.

Appendix - Interview Notes

These interview notes have been included to provide background to the analysis and to enrich the overall assessment of AST.

The notes are not organised in a rigid format but are subdivided individually according to the nature of each specific interview.

A

**Trevor Read - Managing Director
(Interviewed 16.01.92)**

Background

Trevor sees one of his great strengths as being someone able to be totally focussed on a particular objective, and not being diverted until he has seen it through. Consequently he is placing all his efforts on the SHL approach to bring this to fruition. Should this not happen there are many other potential suitors, they are in contact with both Broadview Associates and Regent Associates. One particular company that has taken a lot of interest in them is SLIGOS, who recently acquired 51% of Nexus. AST and Nexus Ltd previously held some discussions about the potential of merging. There are in fact a number of plans and options.

As far as SHL is concerned Trevor felt that it was difficult to see the synergies at first, but he can see them now. Critical mass is important. Probably important for RBC to keep its strategic investment, to have a vested interest.

The Company

We have an excellent customer base which provides us with a base of committed, recurring revenues.

The people are our hidden assets, they give us great strength, there is a strong internal culture.

We have spent a lot of money on training for management, this has helped us move to a position where we criticise ideas not persons.

We have put a lot of effort into product quality.

Products are now integrated into the business, products are strategic. This is because they open channels. License fees are the way to make money.

Profit is a problem, since the infrastructure costs are high. Payroll cost is high because of banking benefits paid to staff. Together these two account for 60% of their costs.

B

Stuart Payne - Director Computing Services (Interviewed 08.01.92)

Personal Background

Stuart first entered the IT world in 1963 with Wiggins Teape. He was with British Gas for 17 years, working in both applications support and operations where he stayed seven years. In British Gas he was responsible for 160 people, an operational budget of £10m pa and a capital budget of £3m pa. In 1982 he joined ORION which was an RBC subsidiary. Black Monday in 1987 meant the beginning of severe cut backs although RBC had already started to rationalise some activities. Following the 1987 crash they had to cut the IT spend by 50%. The options were FM, retrenchment, create external unit. This was the origin of RBC systems.

Feels very comfortable running very big data centres.

FM Business

Stuart's most feared competitor is IBM, they worry him. They could take total control of both the hardware and the software, but he thinks users can see the downside of this as they are doing it for account control. To date IBM are struggling in FM, they have been operational for one year but have not achieved much. They recently won a contract at Scandi Bank, they used very senior people at the top level of the bank to get the business. AST's marketing was caught by this. However it was not really an FM Deal, no equipment changed hands or people, the work is being processed on IBM's Warwick Data Centre.

Has doubts about Andersen Consulting as a competitor, recently got a supermarket deal but in general are believed to be selling the processing part back.

The major marketing problem for AST is not always being on the short-list, at most they get on 50% of them. They still have a problem with market awareness. *Service delivery* is not an issue, *marketing* is the big challenge.

There are some technology issues that relate to positioning dilemma's for AST. Mainframe FM will eventually go away, therefore what should they do about developing mid-range (AS 400 capabilities), UNIX and Network Support. Stuart has just written a paper on the opportunities in Network support - could probably benefit from some more input. All of these issues are very vital to AST's future plans, but they need to take into account their heritage and their USP's. It will take 3-5 years to move into Open Systems, UNIX and downsized services.

Company Direction

Stuart believes that the major thrust must be to emphasise marketing. The short term FM plan is coherent and probably right. Inevitably their corporate strategy is two pronged, history has led to the development of two camps.

They need to capitalise on their combined qualities, a skills database is being developed. They could make better use of their current resources without major restructuring.

A key challenge is getting a better balance in profitability between the two sides, it is going to be very tight on FM in 1992. The RBC contract means a step decrease for them so that their 1992 targets are going to be very tough to get. They need to get £3M new FM business with a 30% gross contribution. Their typical conversion rate is one in three.

They can generally bid a bureau approach with every product proposal but their plans do not assume any business coming from this direction.

They are looking at the possibility of getting system development business but think that it is too generic.

Believe that they are currently organisationally complete although there are some historical and cultural issues. Were they to merge with somebody in the future he would be concerned that they avoided watering down their USP's.

C

Paul Calver - Manager Computer Services (Interviewed 07.01.92)**Personal Background**

Paul came from RBC Systems where he had been for 6 years and prior to that had worked closely with Stuart Payne at British Gas for a long period. He sees himself as an action man who modifies Stuart's more introspective analytical style. He thinks he is very much like Trevor Read! Stuart's strengths are reports and numbers, Paul's are his people skills. Sees himself as a guy who can so NO and who is prepared to call a spade a spade. Believes he gets away with being a *cheeky cockney* in situations where other people wouldn't be able to pull it off. Sees the down-side of the job as having to run a very tight resource. His only frustration is that the company is not growing enough.

Department

They are responsible for FM in the financial sector only. The strength they offer is their personal service. They have a very keen loyal staff that is dedicated to the job. Their procedures are very good, they have come out of 4 recent audits well, their standards and levels of security are high. Have a tight manpower budget, there are no passengers, no dead wood. On the FM side they see all clients as important, in FSD they are too product orientated.

When they take on a new FM deal they select only the staff they want, as in a normal recruitment exercise.

FM is measured on the service they provide, it is a very personal service that has to build trust. Believes all clients are happy, he asks them. Alan Fraser is pushing customer care, the whole company is service orientated. Paul personally places great store on his Friday morning walk-rounds - visibility is good.

Paul believes in putting the *techies* in front of the customer, this is good for them.

The Company

He is not sure that there are synergies with other parts of the company, but thinks FSD may need the FM side more than the other way around.

Sees Trevor Read as the opener of doors. Stuart Payne is a likeable man, not a heavy manager, he certainly knows what he's talking about. Stuart gets very involved with sales proposals, is a very good FM estimator.

D

Laurie Dale - Manager, Communications (Interviewed 30.12.91)

Personal Background

Laurie had worked at SE Gas for 11 years with both Stuart Payne and Paul Calver. Subsequently he worked for the Post Office on Telecommunications Systems before joining RBC Systems.

He is satisfied with his current level of responsibility, he is *as high as he wants to be*. The share stake he holds in the company is important to him and he believes it has a very positive impact on the *chemistry* of the company.

Department Overview

Laurie Dale manages two groups of people:

- Telecomms
 - 4 on special projects (installation management)
 - 3 front-line support (principally for the Bank of Montreal).
- CICS
 - 4 support people (one of whom has SQL/IMS experience).

The group provides day-to-day support for AST's telecommunications activities including in-house where it is responsible for voice and data. It also manages mini-projects, typically installations and gets involved in assisting the FM bidding process. Essentially it has a very tight focus.

The group spends on average about 30% of its time in direct involvement with AST's customers.

He would like to see AST doing more telecommunications work, there are opportunities with existing clients who do not currently use AST for this. His vision would include getting more involved in open systems and applications like EDI. They would get more and more into competition with vendors like GE Information Services. The real issue is the *management* of the service, not the technology.

Their job is to provide clients with *reliability* and *security*.

The Department operates as a cost centre.

FM

Sees security, particularly related to telecommunications, as being key to banks but the FM driving force is to reduce unit costs.

He believes that AST is very successful in supporting clients, not only can they support them on a day-to-day basis but they can also provide some forward *vision*.

As a department they have met all their major deadlines, some small projects have slipped. Believes customers would have a positive view of AST on its ability to meet its commitment.

Sees principal competitors as IBM, EDS and Hoskyns. AST's competitive edge is their track record in Financial Services. Does not think they should get into other sectors at the moment, they should continue to attack the financial sector.

The Company

AST is highly procedural in its management approach, this is a hangover from the Royal Bank. However current procedures are not generally good. The company is targeting obtaining BS 5750 accreditation. Company culture is very meetings oriented, project meetings are a successful aspect of this.

There is a formal planning process, this is interactive. There is an emphasis on small groups in AST. This gives people a sense of belonging and has kept staff turnover down to a very low rate.

Views Trevor Reed as someone who *opens doors*, someone who very much relies on other people to get things done, someone very sales oriented. Trevor has shared his vision of future prosperity for the company. The company he ran previously was the plastic card management system part, not well documented software, needed a lot of tidying up.

Stuart Payne, his boss, has a good focus on accounting. He prepares very detailed accounting reports, they are very well presented. As a result the department has kept within its budgets, it is a cost centre.

Laurie is set specific objectives by Stuart, he believes these are monitored by the personnel department.

Sales and Marketing

The Commercial Division has begun to pull power away from the other departments. In the past there has been a high turnover of sales people.

Richard Wright (ex Datasolve) has been recruited to attack the FM opportunity, has been with AST for 4 months. Seems more marketing than sales oriented.

E

Alan Winkworth - Manager Strategic Planning (Interviewed 07.01.92)

Personal Background

Worked for the Bank of Montreal one of AST's FM clients. He joined the Bank of Montreal three years ago because of its size and applications specialisation. When he came on board he was given his title with a view of converting his role from supporting his previous employer to that of planning. This is representative of the kind of difficulty of bringing in new people from FM contracts at a senior level. AST has managed this well, they are very open and honest. Sees AST as having an apolitical environment.

Role

His specific responsibilities comprise:

- About 50% of his time is spent on bidding FM contracts - Richard Wright is the salesman.
- Managing the Bank of Montreal account - this takes approximately 10% of his time.
- Examining an organisational *rethink* and evaluating performance and capacity issues - 10% of his time. He works with Bob Philips on this but needs more than one person to do this properly. An issue is whether this function should report to Paul Calver.

- The remaining 30% of his time is devoted to:
 - Equipment acquisition, talking to brokers, liaising with Laurie on communications.
 - Systems software.
 - Automation efficiency (ie should they be in cartridge technology?).

FM

AST do not want to take ownership of the clients' applications, there is risk association with old applications. Bank of Montreal didn't want to have their applications managed at the time of the contract, however he thinks they probably would now. FM pricing is a function of how well you can manage the work. Margins can be up to 50%. You have to keep your promises to staff.

Believes they have the right location and the right staff but are missing on the technology. They are 2-3 generations behind, they need to be able to support the latest software.

F

Mike Dodd - Manager Security (Interviewed 08.01.92)

Background

Mike was with RBC ten years ago. The move to AST has still left some unresolved issues, for example getting the best deal for AST out of a monolithic RBC. RBC brought the disciplines to AST which was a reactive and *street-wise* company. The move into the market has been a good thing. There have been some differences to overcome, the clash of computer services versus software development, but people are trying to tackle them. It is not a political environment.

Mike spends 30 to 40% of his time on sales and consultancy.

The Department

It comprises 4 people plus one project manager seconded in for a disaster recovery service job. All have been personally recruited by Mike. His four staff are:

- 1 deputy
- 2 analyst
- 1 administrator.

The attitude of the Department is multi-discipline technology with an attitude of healthy scepticism. Security generates a lot of administration, they are trying to devolve some of this.

Disaster recovery is something being provided to FM clients, not offered as a separate service, there is some pressure for *hot restart* resources.

A major challenge for the Department is to introduce BS 5750, it means a big change, they need to avoid it becoming too bureaucratic. They need to be able to follow procedures smoothly and efficiently, possibly move to on-line documentation. They must work on the delivery mechanisms for FM and have good intra-company communications to avoid re-invention of the wheel.

They push *security* as an added value function, it is not separately charged. This is a headache from a resource level viewpoint.

The Company

Believes senior management makes an effort to keep in touch, which is good but thinks there are problems lower down; people need to get out more. Some technical areas still isolated. Managers need to listen to the staff lower down. However, maybe senior people are too complacent. Stuart Payne has a good balance between strategy and detail.

Everyone in the company has been through the *customer care* programme.

The FM business has good profit potential, 20 to 40% contribution. It is vanilla IBM, AST will not buy the business. The product side has lived off FM but has now come on leaps and bounds. UM-20 in particular is doing very well. But they can't cover everything, they need to know where to find new products to feed this part of the business.

Believes that AST has gone wrong on marketing, they seem to have had several false starts, but think they are getting it right under Geoff Griffiths. He has developed a professional set-up.

Most staff complete timesheets, but not the operational staff - few managers complete timesheets.

G

Mike Taylor - Finance Director (Interviewed 30.12.91)

Personal Background

Mike has worked for Trevor Read since 1987. Originally worked at FST before it was folded into AST with a cash injection from DCC of £250,000. At this time AST (1987) was 18 people. Prior to FST Mike Taylor was with a Big Six accounting firm.

Department Overview

The Department has to provide financial reporting to RBC on Day 5 of each month, it takes a day and half to prepare and is not relevant to the operation of the Company.

The management accounts are organised by the two Divisions as profit centres and Departments within Divisions as cost centres.

The Company Culture

The company has gone through a lot of change in the last 18 months.

Trevor Read is very much seen as the finder of opportunities, for day to day management he is too much of a *butterfly*. Trevor himself is still trying to come to terms with the transition from the entrepreneurial (class) of the original AST and the more structured approach imposed on AST by the RBC influence.

In Trevor's management of the original AST company his ideas meant speculative involvement in activities that never got anywhere, they implied considerable expense but no profit.

Decision making is still small-style company, no real formal planning process. Trevor's style is to not involve other people until he has made up his mind, he then wants a quick timescale for implementation.

Trevor now realises that a *team* approach is needed. An example of the individual approach was agreeing to a 10 year lease (of premises) with WESTPAC and then having to renege on the deal. AST paid a £¼ million penalty for this.

In this respect the Company needs to be more bureaucratic.

The work they are doing with Cranfield is helping. It is helping to formalise their strategic planning and assisting in developing *team building*. Trevor, however, not really part of this.

Cranfield initiative started with a weekend session and has been followed up by 5 workshops all within Monday - Friday time frame.

There is a strong anti *body-shopping* ethos in the Company, there is a feeling that the way forward lies in developing a portfolio of *products* that support customer *solutions*.

FM Division

AST is able to get near Hoskyns and EDS in competitive bid situations but can win in financial services markets with their financial background and focus.

Product Division

The company is facing the issue of license fees. How to account for taking revenues where there is a high professional services element. All contracts are fixed price.

They have four distinct categories of revenues:

- License fee
- Fixed price contract (need to monitor profitability in this high risk area)
- T&M
- Maintenance - resource is variable.

Product Development is written off within the year incurred in the accounts. This year they are capitalising the development of the German (UM-20) products. (A £¼ million was capitalised during FY 91). However RBC is against the capitalisation of software.

For the UM-20 *product* a further 8-10 sites are planned over the next 3 years.

Sales & Marketing

The company needs to be more focussed on FM. They have made a significant investment in Sales & Marketing, the appointment of Geoff Griffiths, a department strength of 16 people compared to 5 one year ago are significant changes. The challenge is for these people to generate the business, the Company needs the revenue.

Richard Wright is the person specifically focussed on FM marketing.

By putting all the marketing people together they have the possibility for cross-selling ie. three feet in the door. The basic sales synergy is there.

Miscellaneous

AST has recently committed £70K to the new building.

The RBC revenue stream is running down much more slowly than originally planned by RBC:

- 1989 £5.5M
- 1990 £5.0M
- 1991 £3.3M

In the last FY RBC generated £4.3M revenue. They have added INTERNET on TANDEM for RBC.

There is a considerable gap on the FM side with a real need for new sales agreements, ideally these need to be on IBM mainframe environment. A £1M contract can make a £400-£450K contribution.

H

Geoff Griffiths - Commercial Director (Interviewed 08.01.92)

Personal Background

Geoff has only been with AST for 9 months, he was recruited into the company personally by Trevor Read. Previously Geoff has held a variety of sales roles at a number of companies, including the following:

- ARBAT
- HOGAN Systems
- ORACLE
- GE Information Services

Sales and Marketing Department

Geoff has seen one of his principal challenges as changing the whole culture of sales and marketing in AST. He has removed low level people and brought in more senior level personnel with a track record of performance in relevant fields, age range 30's to early 40's. For example the FM salesman comes from Datasolve.

He believes that cross-selling has resolved a number of perceived differences between the two divisions, the fact that it is all concerned with financial services binds it together.

The AST sales mission must be to develop client partnerships.

A major marketing challenge is that international banks, a prime focus, are not controlled from London. It is therefore important to be able to access their head office abroad and then to suggest an FM deal for the London activity.

Geoff feels that AST's small size and its specialisation on financial services brings it very close to the market, this is a sales advantage versus EDS where their scale brings them no immediate benefits.

Sales-people are targeted to earn 70k in FY92 (80k in Germany). Junior staff 40% basic, senior staff 60%. There is no cap on earnings.

Geoff operates a prospect evaluation rating scheme as follows:

- Qualified prospect - 25% probability.
- Pipeline prospect implies Geoff's personal involvement to qualify it and his commitment to get the business - 50% probability.
- Verbal approval - 75% probability.
- Documented approval - 95% probability.

Geoff operates this system informally with each sales-person, sees no need for a more formal process at this time.

Geoff is not really sure whether the RBC ownership helps them. Does not see them as being particularly dependent on RBC.

I

Tony Spencer - Director Technology (Interviewed 08.01.91)**Personal Background**

His career commenced with Gordon & Gotch an information services company before leaving to found the original AST with Alan Fraser and another partner no longer with the company.

Current Role

Tony is positioned within the Commercial Division and devotes a lot of his time to marketing and sales. As one of the architects of the UM-20 product he can develop prospects through demonstrating his business knowledge of the plastic card business.

One of his marketing functions is the market planning process, for the UM-20 looking at new geographical territories for sales and working out what the company should be doing.

The Company

Tony views the two sides of the company as complementary, the synergies operate at the financial as well as the technical level. On the financial side cash flow that is steady from the FM wide balancing the more erratic flow from the product side. At the more technical level, providing the FM service for INTERNET for example, represents a bridge between the two sides of the company.

As sales & marketing are attacking one sector, banking and finance, there are synergies to be reaped through cross-selling.

Tony would not see any benefits in splitting the company into its separate parts other than at the physical level.

The product side is certainly helped by having the backing of a substantial player ie. RBC.

UM-20

In 91/92 AST needs 6 new sales to generate £2M in revenue and should generate a further £2M from maintenance and support.

J

Rob McLaughlin - Director Financial Systems (Interviewed 03.01.92)**Current Role**

Rob is responsible for 4 areas, the UM-20, INTERNET, SSI and OSWALD (Office Systems Workstation and Lan Development).

UM-20

This area has about 35 people. They are looking for 50%+ growth in FY92. They think these are substantial opportunities in the retail sector and airlines for financial authorisation. In the UK and France it is a matrix market where the opportunity is in debit card growth. In Germany the monopoly has been broken and there is a lot of opportunity for major customisation.

Competitors are ON-2 on Stratus, Base 24 and Connex on Tandem. There are some IBM mainframe based solutions. Open systems are nascent in this market.

Offering smaller, cheaper solutions to smaller organisations eg. Building Societies like the Bradford & Bingley) etc. is the opportunity. (Abbey National use ON-2).

They believe their functionality is as good as their competitors and they have a track record of delivering within a time-frame.

The revenue pattern they would like to achieve over a seven year period with UM-20 is:

- 1/3rd on initial licence fee
- 1/3rd on maintenance
- 1/3rd on enhancements.

At the moment maintenance only represents 12% of revenues. They believe they can get nearer to 30% by offering support on a 24 hours a day/7 day week basis.

AST can offer a UM-20 processing service.

INTERNET

The RBC bought a licence to this product and AST supports this in both London and Frankfurt. A major problem for INTERNET is that they don't have enough people to support the product and this is therefore an opportunity for AST, many users are dissatisfied with INTERNET's service.

INTERNET is a very complex Tandem based product which is acknowledged in the market as the best corporate, wholesale banking product available. However global corporate banking is not growing organically.

AST has considered some form of joint venture with INTERNET but there has been no conclusion to this.

SSI

AST acts as the distributor for 3 products from SSI. They have the rights for UK and Ireland. Again they can offer a processing service for these products. The optical disk product could take the company into some new *low-value* areas, price is from £30K.

Oswald

This area has a headcount of 7 people. Essentially this comes from the RBC operation supporting PC's and LAN's. They have developed an electronic mail product which is differentiated in the market by its security connectivity for AS/400 and mainframes. However at the moment they are really selling professional services consulting.

The Company

They recognise the different culture and philosophy represented by AST's constituent parts. The Bank with its project management skills and commercial discipline and AST a very technical company. The strengths of the company are however its products and its staff. They are having to mould a product culture from fundamentally a systems culture.

Rob believes that they have good management information although they have been optimistic in some areas. They want to grow at 30% per annum. Sales and Marketing has gone into some new areas on a purely speculative basis, the lessons have been learnt and they are now more cautious.

The problem with the FM side is that the business is unpredictable and the Data Centre represents a major warehousing problem.

K

**Alan Fraser - Director New Product Development
(Interviewed 16.01.92)****Personal Background**

Alan worked initially for Burroughs where he was involved in cheque processing. Subsequently he was part of the Post Office team that developed pilot branch automation schemes still operational at York and Northampton Post Offices. He was one of the founding members of the original AST company and was the chief software architect for the UM-20 product.

Current Role

Now that he has relinquished control of the UM-20 development team his brief is to look at anything new, for example where next should the UM-20 product be developed.

Alan runs a customer *care and awareness* programme to ensure that all staff understand why they need customers. In the past there has been a tendency for the ex-Bank staff to treat the *customers* simply as *users*.

He is also involved in documentation standards, the initiative to get the company BS 5750 accreditation and for the introduction of the generic BCS personnel grade definitions.

The Company

He believes they are coming to the end of the shakeout of the RBC merger. The company is trying to change from professional services to product orientation, he did not agree with their originally but has now changed his mind.

He considers that the SSI group has not lived up to expectations but that their products are valid. They recognise that they cannot build products from scratch and will therefore have to seek additional products from third parties. The feeling is that the company needs multiple products. In contrast one of their UM-20 competitors Shared Financial is eventually a one product company (OM-2) that has been successful.

He believes they could get more out of the Cranfield project in initiating the controls needed for a bigger company. It has however brought the Directors together.

Long-term planning does not really occur. The company is on a short-term focus. The RBC connection is helpful in initiating a business planning cycle.

UM-20

Alan believes there is a distinct shift from proprietary based systems to *open* systems. AST needs to understand the implications of this. UM-20 is Stratus proprietary system based. Although Stratus has a fault tolerant UNIX system, Stratus FTX, it is not yet stable enough to support true fault tolerance and Stratus are not providing sufficient software support for it either.

Over time the fault tolerance premium will erode, AST must avoid commodity status and get the software licence fee relationship right. UM-20 is sold as a business solution.

UM-20 is effectively a *me-too* solution for plastic card management at a cheap price. The original big players (eg. BASE 24) were able to charge astronomic prices 10 to 20 times higher than a typical UM-20 contract. Smaller users (eg. Fenwicks) can cost justify their own system with UM-20.

In most of Europe the use of plastic is unsophisticated and this presents a good opportunity for AST to tackle. In most Continental markets they are up against distributors who really don't have any knowledge of the application or solution need. Consequently they should have few problems selling into these markets. However they need to do better market research, and better marketing. The earlier you are in to these markets the bigger the margins you can achieve.

In the UK the price range for UM-20 was of the order £100-£150K, now they are achieving £400-£800K contracts. However in the beginning the fee was nearly all for professional services - they needed the money. Now the licence fee represents 10-20% of the total contract with far higher enhancement revenue.

L

Alan Low - Manager UM-20 Department (Interviewed 16.01.92)**Personal Background**

Alan joined RBC 6½ years ago to work on their European Capital Markets system. Prior to that he had worked in IS with Gulf Oil, as a consultant with Scicon for 18 months and with Philips Petroleum.

Department Overview

The department is responsible for the development, maintenance and support of the UM-20 Plastic Card System. This is a good opportunity as the plastic card market is exploding in Europe as monopolies are breaking down. There are a lot of opportunities with airlines, retail outlets etc.

The quality goals were not achieved in 1991 due to work pressures, four major systems were installed during the year.

The calibre of the people is high, they put in a strong effort, long hours. The Department now has 30 people, they have trebled in one year and opened an office in Frankfurt. About 50% of the current complement are new recruits.

FSD made a substantial loss last year, SSI was a significant contributor to that. There is a potential for interdivisional rivalry here, it doesn't help in pulling the company together. However, not aware of friction at the moment.

UM-20 must be managed more as a product with the imposition of quality standards. They need to be more efficient, improve internal testing and manage all development out of London. The UM-20 needs a bigger licence fee element with a consequent reduction in the elapsed time to install. Need to increase the price for both product and people.

The biggest challenge is profitability, capacity planning is also a major problem.

Company Culture

In the main most people in the company put in long hours. Rob McLaughlin is a workaholic.

A lot more needs to be done to create synergy between the AST and RBC components. He sees it as a balance between the entrepreneurial approach and necessary checks and balances brought in by RBC. IT management skills were lacking in AST, but it was technologically strong.

Feels that the company has been technology led and is gradually shifting to being more marketing led. The Commercial Division represents this move which has been the major growth area last year.

The SSI Department represents a new culture for AST, it is very early days for this area. CSSII is a problem.

Feels the company structure is basically sound, because it doesn't put all its eggs in one basket. It needs a broad product portfolio.

There is an aversion to contractors in AST. Need to have better knowledge of skills within the company for planning purposes. It is a difficult balancing act between people and work.

The company is benign, not hire and fire.

M

**Ray Norman - Manager Banking Systems
(Interviewed 20.01.92)****Personal Background**

Ray has had 18 years of applications programming experience. His IS career commenced with LUCAS/CAV and was followed by time at Hoskyns and a period of body-shopping with INFORMATICS leading up to joining RBC systems in May 1986. He took over his current responsibilities from Larry Mindel in November 1991.

The Department

The prime responsibility of the Banking Systems Department is the support of RBC's INTERNET system. The department is currently running with 16 people against a headcount of 19. Key tasks are the project management and the integration of systems.

The relationship of the Department with the rest of AST can be difficult, Ray feels *distanced* from them. However he accepts that this works both ways. Believes they are the *poor relation* in the Group.

In respect of RBC, they fear a computer conspiracy, AST's ability to subject them to *hold-up*. RBC think that AST is not charging them at the full rate, probably at 25% below market rate, AST is resentful of this. RBC are charged at £63/hr flat rate for all work. INTERNET would charge at £110/hour.

AST view the Department as being tied to RBC, however Ray believes they could look outside, for example to the Nat West, for work. Ray believes that Stuart Payne doesn't want applications management responsibility because he wants to avoid hassle, however he gets plenty of hassle from RBC anyway.

INTERNET represents a key growth opportunity because it is a very difficult complex system to support. *Once you've been there you know where the problems are.*

Rob Maclaughlin (Ray's boss) likes the *replication* idea for products, puts emphasis on this in terms of company direction, but is in effect the account manager for RBC London. He spends a lot of time smoothing RBC. Stuart Payne provides the service, Rob Maclaughlin provides the support, RBC try to play these two directors off against each other. It is therefore difficult to manage relationships with RBC. (The Department was in RBC for one year before being bought). It is a 3-way problem between AST, RBC London and Head Office in Canada.

Larry Mindel (the previous manager) had been told to grow the Department, but got involved in a difficult implementation. He now works for Geoff Griffiths where he is trying to identify whether a couple of products are saleable, an *end-use reporting tool* and an *overheads analysis tool*.

The Company

Ray believes the *security card* is overplayed on the FM side. The FM side is what the company is known for, this is where the selling takes place.

Ray likes working in a *software house* environment, there are some political aspects within AST, not significant, not *oneupmanship*. The problem lies in unclear accountability for responsibilities, which causes conflicts. Boundaries are not clear in respect of dealing with RBC, consequently problems filter down.

Product orientation is a problem, thinks no-one knows what is really involved here, particularly the executives. Believes the AST approach is wrong, not the basic idea. Have people made an attempt to find out what is really involved? Sees a lack of cohesion between the marketing area and other departments.

In the AST culture it is difficult to say *no*.

N

Richard Wheeler
(Interviewed 14.01.92)

Personal Background

Richard joined RBC Systems 6½ years ago. Prior to that he worked in retail banking with TSB and also worked with Datastream International. He became involved with both front office and treasury applications and then got involved with system architecture with RBC. Subsequently has worked on the RIMS and INTERNET Systems.

Department Overview

The SSI Department is the European distributor for SSI (Stockholder Systems Inc. of Atlanta). Richard described his portfolio as consisting of 2½ products, the ½ referring to the Optical Disk based product LANPath. Brief descriptions of the products are as follows:

- Recovery Management System (RMS). This is an IBM mainframe and AS/400 based product that sells in a price range from £100 - 250K. AST has one customer for this product, Marks & Spencer Financial Services. RMS is currently being marketed by one salesman in Geoff Griffiths group and supported by four people in the SSI Department. They are currently trying to recruit a training manager and might recruit one more support person. Additional requirements would be met by using contract staff. The M&S account is not profitable.
- CSSII (Comprehensive Share Security System) is another IBM mainframe based package which maintains a company's shareholder register. The price range for the product licence is in the range £200-400K. Allied Irish Bank use the package which is supported by AST but was not originally sold by them. This is a very tough market where sales will be a function of the development of the Stock Exchange's TAURUS system. Delays and doubts about TAURUS have caused users to batten down the hatches. In fact the TAURUS situation has dried up the market completely, you are selling against inertia. No competition because no market.

- LANPATH is a product based on WORM (write once, read many) technology that is designed to replace microfiche. (For example, RBC spend £35K/year on microfiche.) It is a shrink-wrapped product that should market for £30-£35K. It is therefore a low price product, but one that can potentially offer a high payback. The product faces marketing difficulties, it is very difficult to identify prospects within companies unlike the other products. It is clear that SSI themselves have not yet found the magic key to market this product. It is 'brand' hardware independent. Currently the software is not fully developed, it will be rolled out when the software is in place.

Royalties to SSI account for about one third of the revenues. They expect to break even in FY92 on a revenue of £1m+. RMS will make money this year, CSSII will lag, the optical product could only make a very small contribution. In the past unrealistic projections were made for this area.

Perhaps the SSI Department could stand alone as a separate company, but it obviously benefits from the administrative back-up and at the next level needs IBM mainframe capacity to run the products, it uses the infrastructure. There is also the flexibility to move people to different departments when otherwise one would need to let them go. The AST skill base is important.

There is also some benefit from the backing of RBC, it gives an advantage in that there is a financial guarantee. Software product companies can go up and down like yo-yos.

Company Culture

The physical environment is very tacky. Intellectually the environment is stimulating and rewarding. Although nearly all managers are shareholders the Commercial Division managers do not have the same span of authority. Pay increases are performance related, should be straight profit related bonus.

The grading system for staff is still a hangover from RBC. They are changing to a system approved by the BCS. Feels that promotion has lost its meaning for people and that pay is still a contentious issue within the company.

The initiative of senior management with Cranfield is still at the early stages, they are still feeling their way, much work needs to be done to build the team.

For the future AST will need to expand its product range, look for niches to exploit, possibly using more SSI products.

Sales and Marketing

The SSI Department's products require a lot of investment up-front. AST needs to be more market oriented, this needs to be implemented at a high level in the company.

Richard was unable to provide any market share or competitive information. These are nascent fragmented markets.

There is little sales leverage for SSI from other AST service products, its more the other way round e.g. M & S Financial Services is a prospect for UM-20. This may improve now that sales is an integrated function, they now have a more professional marketing support organisation. This has only happened in the last six months.

O

Ian Carter - Manager Office Systems (Interviewed 14.01.92)

Personal Background

Ian worked for MARS for 11 years where he was a specialist on IBM 8100 office systems. He joined RBC eight years ago. Ian is a big company man, sees AST as a downsizing of his career prospects. Ian wants to remain a creative technician focussed on applications, this is what interests him.

The Department

Up to the end of 1990 the Department only supported RBC. They only provide second line support to RBC, first level support is provided by an RBC in-house group using Datalogic for TPM.

They also support office systems for AST, but again first level support is provided by the network control group.

The group consists of six people of whom 3 are dedicated to RBC, one supports AST internally and 2 development staff are funded out of RBC head office.

They no longer see themselves as an operational group but as a development and research team. They have looked outside for opportunities as AST started placing more emphasis on the *external* market towards the end of 1990.

He does not believe that Trevor Read has any interest in the OSWALD department.

They have built up SNA and LAN integration skills and also for TANDEM. They therefore have the potential to offer LAN consultancy.

One of the Departments' problems is that RBC has a very short planning horizon, there is not good vision of the future, the workplan is only for the next 3-4 months. This results from the branch office syndrome in Canada.

They have stability deriving from the RBC connection but they are vulnerable to one client.

They are looking at the possibility of other products, for example a real-time host monitor for response time, this can be done centrally through a LAN.

A valid direction for them is to look for LAN Management and Monitoring Tools.

Ian feels that they are still trying to do too many things with too few people. They need to get rid of the operational aspects, this is too low value, low status. They must therefore go in the product development direction, it is also possible to go "network consultancy".

Revenue expectation is £½M in FY92, 85% is derived from RBC. The Department is a Cost Centre.

LANMail Product

Their LAN product derives from an RBC developed systems, it is an E-mail system with DISOSS compatibility. It meets a niche requirement in an environment where OfficeVision 2 has not yet happened.

There are significant marketing problems with LANMail, there are just not enough resources (financial) to support a product launch estimated to cost in the range £8-10k. It is a shrink-wrapped product with an entry level price of less the 1,000 and yet the AST sales and marketing group is not a commodity sales unit.

There is a major packaging problem with the product as they cannot register the LANMail name due to prior use. This means that they cannot even produce a brochure. There are no distributors for the product.

However, they have had a lot of word of mouth contact, through RBC in other companies and banks and through exploiting personal contacts. They have carried out a joint marketing exercise with Connectivity Plus a small consultancy firm. They published an article on the product which generated 8 leads and Pfizer Hospital Products has become a beta test site as a consequence. This is a PC/LAN connected to AS 400's across 14 sites in Europe.

A product overview exists but no business or marketing plan. They want to develop one over the next 2-3 months.

The LANMail product is *fairly* open, it can hook into applications, for example for automatic message sending. It offers many custom opportunities but they feel it must have a *shrink-wrapped* entry level.

Sales and Marketing

One of the problems in the past has been that the FM people have had tunnel vision about cross-selling. Although the whole company is targeted to selling to large financial institutions they have not been keen to push their LANMail product, but most of these institution's IS is *Health Robinson* stuff operating out of islands of automation.

AST is not exploiting its FM contacts to get LAN management and consultancy opportunities.

Sales and Marketing are not supporting OSWALD at the moment, although a draft brochure has been prepared.

P

**Westpac Banking Corporation
(Interviewed 11.02.92)**

Peter R. Allen, Chief Manager, Management Services European Division

Mark Paige, Manager Information and Operations Centre.

Background

Westpac are an FM customer of AST, they have a 3 year contract which commenced on October 5th 1991. They originally looked at the outsourcing opportunity three years ago but only finally made the decision last year. Westpac did not comment further on the delay but it is understood from AST that there were some significant financial commitments concerning a building lease that proved a problem for AST. They were resolved when AST agreed to pay a £¼ million penalty for non-compliance.

Scope of the Contract

AST have responsibility for two significant elements of Westpac's overall IS operation, the IBM platform operations and the network operations which are both operated at AST's data centre.

Westpac's Outsourcing Motivation

Cost was undoubtedly the principal motivation to outsource the operation of their IBM system, although two other factors were important to them:

- Physical facilities problems.
- Lack of management time to devote to operations.

Westpac were not prepared to reveal what the extent of their cost savings were, even within a range, but admitted to them being substantial. Peter Allan commented *the savings were well worthwhile.*

It appears that the motivation to outsource came from Peter Allen's group. They found considerable resistance in Sydney to the concept three years ago, *they were just not comfortable* said Peter, *they needed to be sold.*

The outsourcing of the IBM related activity has allowed them to refocus their internal efforts on new technology. They have recognised that they will not be on a mainframe environment forever. Outsourcing has *unhitched* them from the human resource aspects of downsizing.

Westpac had thoroughly examined every service before seeking to outsource their IBM operations. This they felt was common, *most other banks are looking* at this possibility.

Attitude to Outsourcing Elements

Peter Allen's group were primarily interested in achieving platform and network operational cost reduction. There was never any question of outsourcing applications development or maintenance. This option was not seriously looked at for the following reasons:

- They felt it very important to retain control over the applications, at the limit the IT based services are Westpac's services to its client base, *IS is the product in Banking*.
- As an internal support group their client's are the internal users, they felt that it was very important to keep very close to these people.
- Interaction with HQ in Sydney was very important to them, there was no obvious benefit in handing applications responsibility over to a third party.
- An overall concern over service levels from a third party was also important to them.

With regard to the possibility of outsourcing Desktop services it needs to be recognised that Peter Allen and Marc Paige actually support this activity and are therefore unlikely to favour the export of their own jobs.

Naturally they buy in maintenance services - they use a third party maintenance company, Express Computer Maintenance, for their network and individual vendors for their own systems. The systems they have are specialised, the vendors want to provide the maintenance and have the necessary skills and service response. These would be reasons for not giving the whole maintenance contract to one firm. However they also recognised that economies of scale might change this stance in the future.

If Westpac were smaller then they might not be able to support all the skill sets they needed, it is therefore a function of business size.

Applications management was seen as the long-term role of the IS department, outsourcing would be restricted to more prosaic functions. They do of course buy in professional services to meet temporary requirements but feel their management skills are OK. Overall they felt that their long-term IS strategy was *not clear at the moment* but that having a systems operations contract gave them significant flexibility.

Choice of Vendor

Westpac shortlisted three vendors three years ago:

- Hoskyns
- Datasolve
- AST.

They used the Kepner Tregoe Methodology for choosing the supplier, AST was chosen at the time and not re-evaluated last year. Separately they had considered TELEHOUSE for supplying a Disaster Recovery Service but considered the costs too high.

AST particularly appealed to them because of its banking heritage, their corporate culture was banking, as Peter Allen commented *they thought like a bank*. He further added without prompting that were AST's ownership to change out of the banking sphere that they would have to seriously review the continuation of the contract.

A significant *banking* related issue was that of human resources. Transferring staff from Westpac to AST did not incur a loss of employee benefits to the staff involved. Their impression of companies like Hoskyns and Datasolve is that the long-term job security of transferred employees is low. They were concerned about internal morale problems, the choice of AST obviated these.

A further significant issue was that of security, they felt that AST understood their security needs and were able to respond to them.

The fact that AST was prepared to offer a fixed price contract was also a significant factor, apparently both Hoskyns and Datasolve offered complicated *bureau like* pricing mechanisms. They didn't feel comfortable with costs being calculated in this way. These were unattractive in view of their prime cost-reduction motivation. They felt that other companies were *less willing* than AST to go fixed price.

Westpac Experience of AST

They both felt that AST's level of service was very good. They are not involved in a significant level of effort to manage the AST contract, Peter Allen commented *much less management than we thought*. They felt that AST had *more than fulfilled their expectations*. Meetings are held monthly between Peter Allen, Mark Paige and AST, with more frequent control between Mark Paige and John Pollard the AST account manager.

They felt that some of the contributory factors to this good level of service were:

- They had already been used to operating their own data centre in a separate building and had therefore developed the communication system necessary for management control. In effect a half-way-house.
- This contributed to the elimination of problems with multiple communications channels, they just do not have this with AST.
- The fact that some AST staff are ex Westpac has meant that the contact is with *friendly faces*.

The downsides of outsourcing for Westpac were generic and not specific to AST. They could be summarised as:

- The need for users to be more disciplined in their approach, more formalised for getting support and service. (Not necessarily a disadvantage).
- A lack of *comfort* regarding the way problems are handled within the outsourcing company. If they had been near to *crashing* on their own data centre they would know and be able to respond, with a systems operations contract they wouldn't know. They were sometimes left with *the feeling that things may or may not get implemented*, a feeling of a lack of complete knowledge.

Overall they felt that problems with AST had been minor. It is interesting to note however that they did not go out of their way to cite any particular AST personnel in respect of service issues.

AST's IBM Data Centre *technology* level was not an issue for Westpac. They recognised that it was not at the latest level of release but felt that it was actually *almost an advantage to them because of the level of service*. Moving to new releases could trigger increased service level interruptions. Westpac felt that technology change should be driven by the client not by the outsourcing vendor.

However they did not rule out the possibility that this could become an issue in the future.

In respect of AST as a company, they would like to see the systems operations elements of AST's business grow, but only at the rate of 1 or 2 contracts per year. Anything more than this would concern them in respect of the service level impacts that might occur on their work.

The UM-20 element of AST's business is not of any interest to Westpac. It is not a problem unless they felt that management was distancing itself from the systems operations business.

They would be concerned if RBC *watered down their involvement in AST*.

Q

Bank of Montreal.
(Interviewed 17.02.92)

Keith Rydberg, General Manager

Background

The Bank of Montreal has been an FM client of AST's for almost 3 years, the contract expires in July 1992 although this is being extended for 6 months due to re-evaluation of internal systems.

Scope of the Contract

The FM contract covers the operation of IBM mainframe applications, some Digital based and WANG based processing as well as some communications support for their dealing room system.

Bank of Montreal think that it is very important to define your expectations in an FM contract, define a yardstick, for example their up-time threshold of 98%. Only exceptions need then be dealt with.

The Bank of Montreal own some of the equipment, whether they should or not depends on the financial case. Capital expenses are very high for a Bank.

Bank of Montreal Experience of AST

AST accept responsibility, this is very important, they have not led us down the garden path.

They have a good background on the problems and they talk with the corporate audit people. They are very heavy on computer service, good on accident reporting.

For the future the Bank of Montreal think that AST's focus on applications is good, this is not a negative. Do not see any conflict between the different sides of AST, at the end of the day it's a customer services issue, can they deliver the service.

With an FM company you might expect problems as new customers cut over onto their systems, in the CASE of AST, Bank of Montreal have not noticed any problems.

AST are a very flexible company, it all adds up to a very workable relationship. We would gladly use them in the future.

AST are prepared to take a fixed price they did this on a DIGITAL system, committed to the deadline and AST had to absorb one month's rental of the system themselves.

We have a monthly meeting with Stuart Payne and his senior managers. Every two weeks there is a technical meeting, all current projects are discussed *techie to techie*. These meetings are very important. Also sees Paul Calver briefly once a week. Problems are not surprises. We believe in bringing new projects in early. We can talk to the top level AST people (eg. Stuart) about our plans, which are confidential, and be sure that these go no further within AST. This is very important for the *what if* scenarios we are currently examining.

AST do not have prestigious location or building, system level is not the latest - these are almost advantages for the Bank of Montreal, it is affordable technology. AST will put in what we need.

We have in the past experienced some problems on vacation timing, however this only happened once two years ago.

AST have implemented several upgrades during the running of the contract, they have met all requirements here. Would see them as an organisation that can meet their technical needs. Has faith in their technical capabilities. However Bank of Montreal is conservative and wants to control costs.

AST have met the audits, and met all cost reduction targets, 90% of project deadlines have been met.

AST have been very patient with Bank of Montreal as grinding decisions through the bureaucracy is a very long process.

Choice of Vendor

It was an 18 month process to select a vendor. Initially an RFP was put together, Bank of Montreal procedures are very demanding and this took 4 months. About 5 vendors were looked at, Keith was not around at the time to recall the exact process for elimination of the others - AST were chosen despite the RBC ownership element, this caused some initial concern but was overcome.

AST were liked because they were small but backed by RBC, their costs were attractive and there was a built-in insurance policy with their employees being transferred. It was the best bet for their employees.

Motivation for Outsourcing

The motivation for seeking an outsourcing contract was essentially cost, the AST contract has cut operating costs by 50%. Overall Bank of Montreal's costs for IS are down by 40%. Outsourcing effectively eliminated 20 people from the headcount, previously they had 24 staff, now they have only 3 AST people on site. Outsourcing was a way of dealing with escalating costs. Any IS installation just seems to add additional functions and additional costs all the time. Particularly true of IBM sites. In-house suffers from the *do you know better than me* syndrome which exacerbates the process of building in extra costs. Savings have been better than they expected, it is Year 2 of the contract when you really achieve the savings, but will depend on how you are structured.

A secondary motivation was to eliminate the management of problems caused by data-processing, particularly the need to keep security staff, the skill-set management problem, you have to keep feeding the pipeline. A dealing room requires a minimum of 2 people with special knowledge, you have to find these people.

Attitude to Outsourcing Elements

No preconceived notions, the Bank of Montreal is changing, we are probably going to downsize technologically, the real issue though is control of expenses. The future lies in managing the technology together in an affordable way.

The Bank of Montreal is interested in applications management outsourcing and AST have indicated that they could help on this.

We have to recognise then a change of FM vendor would take 12-18 months to implement.

One of the problems associated with managing an outsourcing contract is that *you always feel you can do it better*.

For the future *connectivity* is where the costs are, and where the opportunity lies. Vendors that can demonstrate the capability to bring this altogether are the ones that are going to succeed.

